



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

April 20, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Rebuttal to IRS Response to Draft Report – Oversight of the  
Philadelphia Lockbox Bank Should Be Improved  
(Reference No. 200040058)

During this review, we reported that the lockbox bank did not correctly sort 17 percent of the tax returns we reviewed. During the month of April 2000, 60 Internal Revenue Service (IRS) employees at the Philadelphia Submission Processing Center conducted a 100 percent review of over 600,000 tax returns received from the bank to correct sorting errors. The salary costs alone for these employees were approximately \$109,056. The bank was paid over \$654,000 for sorting these same tax returns.

We recommended that the IRS ensure that the lockbox bank correctly sorts tax returns. The IRS agreed with our recommendation and is taking appropriate corrective action. However, the IRS did not agree with our outcome measure (funds put to better use of \$109,056) because they stated it is not balanced against potential and actual benefits realized by the review.

The IRS response indicated that the 100 percent review identified 162 undiscovered remittances (checks attached to tax returns) totaling \$435,052, which authorized IRS employees promptly deposited and credited to taxpayers' accounts. The IRS response also indicated tangible and non-tangible benefits of the 100 percent review including actual dollars accrued in interest earned on timely tax payment deposits, and potential dollars saved on interest paid on refunds lost due to the bank's missorting.

While these could all be benefits of conducting the review, we still believe the IRS should not use its own resources to sort returns when they are paying an outside contractor to conduct the same review. During the month of April 2000, the bank

was paid over \$654,000 to sort the same tax returns that the IRS sorted. For our outcome, we elected to claim the more conservative amount of \$109,056 (cost of IRS review) as opposed to the \$654,000 (cost of bank sorting).

If the IRS plans to continue this 100 percent review, as indicated in its response, we believe the IRS should negotiate with the bank to ensure the bank is penalized for sorting errors. Currently, the bank is not penalized for sorting errors.

Please contact me at (202) 622-6510 if you have questions, or you staff may call Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.

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